

Auditing Procedures Report

Issued under P.A. 2 of 1966, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Cheboygan	County Cheboygan
Fiscal Year End June 30, 2008	Opinion Date September 10, 2008	Date Audit Report Submitted to State September 25, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature <i>Kenneth A. Talsma</i>	Printed Name Kenneth A. Talsma, CPA		License Number 1101024989

City of Cheboygan, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2008

CITY OF CHEBOYGAN, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COUNCIL

MAYOR	LESLIE A TEBO
MAYOR PRO TEM	RICHARD B. SANGSTER
COUNCILMAN	MICHAEL J. VANFLEET
COUNCILMAN	WILLIAM K. JEWELL
COUNCILWOMAN	THEO LEPP
COUNCILMAN	MARK BRONSON
COUNCILMAN	NICHOLAS C. COUTURE

APPOINTED OFFICERS

CITY MANAGER	SCOTT E. MCNEIL
CLERK/TREASURER	KENNETH J. KWIATKOWSKI

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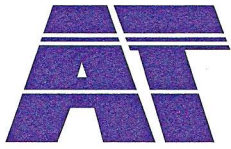
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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Cheboygan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cheboygan, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Cheboygan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely present component units, each major fund, and the aggregate remaining fund information of the City of Cheboygan, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2008, on our consideration of the City of Cheboygan, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cheboygan, Michigan's basic financial statements. The accompanying supplementary information such as the combining nonmajor fund and component unit financial statements identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 10, 2008

Management's Discussion and Analysis

As management of the City of Cheboygan, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year 2008 by \$20,564,629 (*net assets*). Of this, \$2,041,551 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City set aside funds which cover the future cost of the retiree Health Benefit and the payment of sick and vacation time accruals at the time of retirement. The Retiree Health Benefit Investment Fund and Termination Liability Fund had balances of \$223,527 and \$80,238, respectively as of June 30, 2008.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$811,154 or 38% of the total General Fund expenditures and transfers.
- The City has received approximately \$5,700,000 in funding from the Michigan Department of Transportation to replace the Lincoln Avenue Bridge. The City issued \$495,000 in General Obligation – Capital Improvement Bonds dated April 10, 2007 to cover its' share of costs for the bridge. The project was subsequently completed in November of 2007.
- The City of Cheboygan in conjunction with the Downtown Development Authority received a Vibrant Small Cities Grant, (VSCI), in the amount of \$637,000. Approximately \$534,000 will be used to fund the construction of a pedestrian footbridge connecting the City's Major City Park to the downtown area. Engineering for the footbridge will be completed in the fall of 2008 with construction expected to be completed in 2009. The remaining \$133,000 in grant funds will be used toward a Downtown Marketing Study.
- The City was awarded a \$750,000 Michigan Community Development Block Grant for water system improvements. The City also issued \$550,000 in Water Distribution System Improvement Revenue Bonds dated May 23, 2007. Construction of water system improvements began in September of 2007 and is expected to be completed in October of 2008.
- The City was awarded a \$35,000 Michigan Community Block Grant to partially fund a Wastewater Treatment Needs Assessment. The Needs Assessment is planned for completion in November of 2008.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statements of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works and recreation and culture. The business-type activities include the sewer and water activities.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Cheboygan Downtown Development Authority and Brownfield Redevelopment Authority are legally separate component units for which the City is financially accountable.

The government-wide financial statements can be found on pages 12–13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 26 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund, Downtown Marketing Study Fund, City Foot Bridge Fund, and Lincoln Bridge Replacement Fund, each of which are considered to be major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and the major Special Revenue Funds.

The basic *governmental fund* financial statements can be found on pages 14-15 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses Enterprise Funds to account for its sewer and water operations. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the various City functions. The City of Cheboygan uses its Internal Service Fund to account for its motor pool activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water departments which are considered major enterprise funds of the City.

The basic proprietary fund financial statements can be found on 17-19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for governmental funds.

The basic fiduciary fund financial statement can be found on page 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-39 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information including the combining statements referred to earlier in connection with nonmajor governmental funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 40-50 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$20,564,629 at the close of fiscal year 2008.

Approximately 86% of the City's net assets reflect its investment in net capital assets (e.g., land, buildings, water, and sewer systems, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets restricted for debt service, capital projects and perpetual care represent approximately 4% of total net assets. The remaining balance of unrestricted net assets (\$2,041,551) may be used to meet the government's ongoing obligation to citizens and creditors.

City of Cheboygan Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Cash and other assets	\$ 2,179,229	\$ 2,207,763	\$ 1,490,197	\$ 1,570,516	\$ 3,669,426	\$ 3,778,279
Capital assets, net of accumulated depreciation, where applicable	<u>14,979,738</u>	<u>10,088,008</u>	<u>10,324,913</u>	<u>9,613,598</u>	<u>25,304,651</u>	<u>19,701,606</u>
Total assets	<u>17,158,967</u>	<u>12,295,771</u>	<u>11,815,110</u>	<u>11,184,114</u>	<u>28,974,077</u>	<u>23,479,885</u>
Liabilities						
Current and other liabilities	862,171	632,669	130,510	83,170	992,681	715,839
Long-term debt, net of current portion	<u>6,901,767</u>	<u>7,253,895</u>	<u>515,000</u>	<u>535,000</u>	<u>7,416,767</u>	<u>7,788,895</u>
Total liabilities	<u>7,763,938</u>	<u>7,886,564</u>	<u>645,510</u>	<u>618,170</u>	<u>8,409,448</u>	<u>8,504,734</u>
Net assets						
Invested in capital assets, net of related debt	7,905,049	2,674,207	9,789,913	9,063,598	17,694,962	11,737,805
Restricted	828,116	830,934	-	463,660	828,116	1,294,594
Unrestricted	<u>661,864</u>	<u>904,066</u>	<u>1,379,687</u>	<u>1,038,686</u>	<u>2,041,551</u>	<u>1,942,752</u>
Total Net Assets	<u>\$ 9,395,029</u>	<u>\$ 4,409,207</u>	<u>\$ 11,169,600</u>	<u>\$ 10,565,944</u>	<u>\$ 20,564,629</u>	<u>\$ 14,975,151</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, for the government as a whole and for its separate governmental and business-type activities.

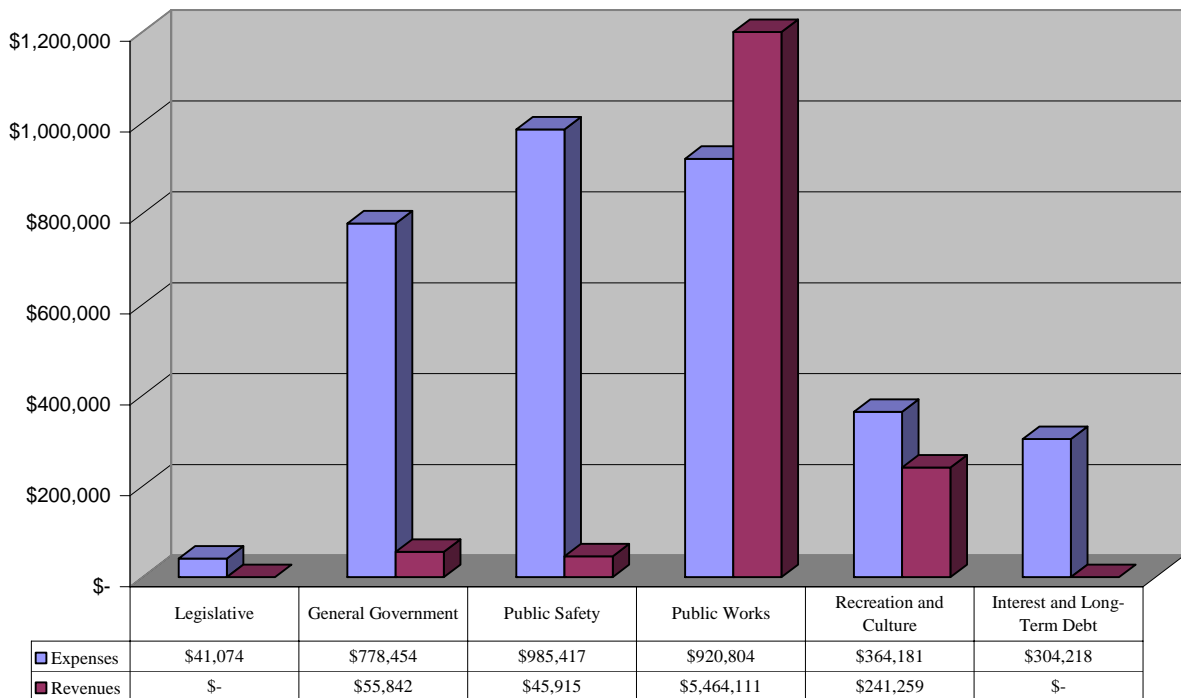
The City's net assets increased \$5,589,478 during the current fiscal year.

City of Cheboygan
Condensed Statement of Changes in Net Assets

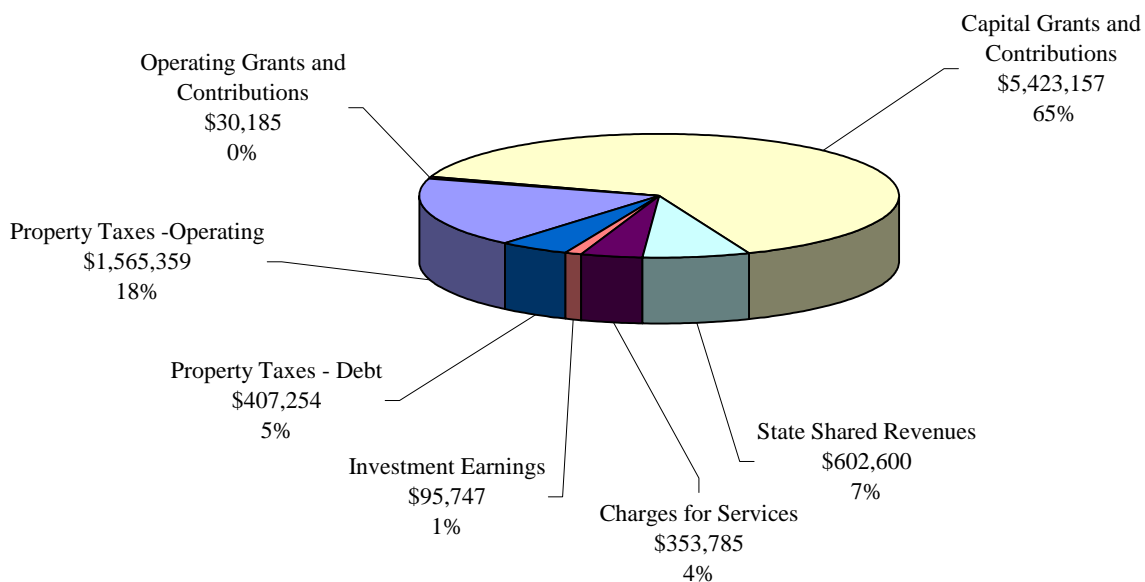
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Charges for services	\$ 353,785	\$ 174,567	\$ 1,186,304	\$ 1,226,895	\$ 1,540,089	\$ 1,401,462
Operating grants and contributions	30,185	524,020	92,607	-	122,792	524,020
Capital grants and contributions	5,423,157	657,907	580,188	-	6,003,345	657,907
General revenue						
Property taxes –						
General operating	1,565,359	1,480,803	-	-	1,565,359	1,480,803
Property taxes – debt	407,254	416,867	-	-	407,254	416,867
State shared revenues	602,600	624,492	-	-	602,600	624,492
Interest earnings	95,747	94,464	43,455	38,506	139,202	132,970
Transfers	(28,117)	31,475	28,117	(31,475)	-	-
Total revenues	<u>8,449,970</u>	<u>4,004,595</u>	<u>1,930,671</u>	<u>1,233,926</u>	<u>10,380,641</u>	<u>5,238,521</u>
Expenses						
Legislative	41,074	36,324	-	-	41,074	36,324
General government	778,454	776,923	-	-	778,454	776,923
Public safety	985,417	972,572	-	-	985,417	972,572
Public works	920,804	956,375	-	-	920,804	956,375
Recreation and culture	364,181	341,743	-	-	364,181	341,743
Sewer	-	-	892,839	877,714	892,839	877,714
Water	-	-	434,176	434,143	434,176	434,143
Interest on long-term debt	304,218	313,770	-	-	304,218	313,770
Total expenses	<u>3,394,148</u>	<u>3,397,707</u>	<u>1,327,015</u>	<u>1,311,857</u>	<u>4,721,163</u>	<u>4,709,564</u>
Changes in net assets	5,055,822	606,888	603,656	(77,931)	5,659,478	528,957
Net assets – beginning of year	4,409,207	3,802,319	10,565,944	10,643,875	14,975,151	14,446,194
Prior period adjustment	(70,000)	-	-	-	(70,000)	-
Net assets – end of year	<u>\$ 9,395,029</u>	<u>\$ 4,409,207</u>	<u>\$ 11,169,600</u>	<u>\$ 10,565,944</u>	<u>\$ 20,564,629</u>	<u>\$ 14,975,151</u>

Governmental activities. Governmental activities increased the City's net assets by \$4,985,822 accounting for substantially all of the increase in the City's net assets for fiscal year 2008.

Expenses and Program Revenues - Governmental Activities

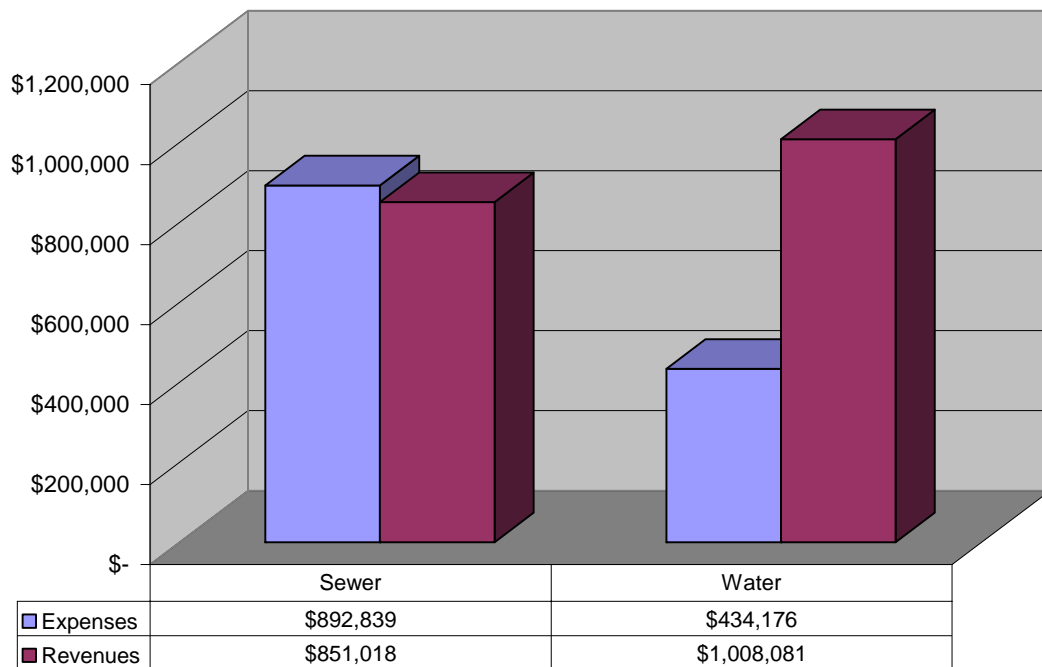


Revenues by Source - Governmental Activities



Business-type activities. Business-type activities increased the City's net assets by \$603,656.

Expenses and Program Revenues- Business-type Activities



Substantially all revenues for the business-type activities resulted from charges for services.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the City. General Fund balance increased by \$206,730 from \$604,424 to \$811,154 during 2008.

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The City's interest income in fiscal year 2008 increased by 1.4% over the fiscal year 2007 total due to the implementation of a sweep account for its pooled funds.

Tax revenues and other revenues were at or exceeded expected budgetary levels.

Capital Asset and Debt Administration

Capital assets. The City defines a capital asset as an asset whose cost exceeds \$5,000 and whose useful life is greater than two years. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

City of Cheboygan
Capital Assets
 (net of depreciation, where applicable)
June 30, 2008

	Governmental Activities	Business-type Activities	Total
Land	\$ 343,216	\$ 2,251	\$ 345,467
Construction –in-process	6,510,576	1,063,056	7,573,632
Buildings and improvements	3,841,690	606,579	4,448,269
Land improvements	1,926,616	-	1,926,616
Equipment	773,796	119,612	893,408
Infrastructure	1,583,844	-	1,583,844
Water system	-	5,196,231	5,196,231
Sewer system	-	3,337,184	3,337,184
Total	<u>\$ 14,979,738</u>	<u>\$ 10,324,913</u>	<u>\$ 25,304,651</u>

Additional information on the City's capital assets can be found in Note 4 pages 29-31 of this report.

Long-term debt. Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a Debt Service Fund, Enterprise Fund or Internal Service Fund. Debt is classified as long-term if the debt matures in a period greater than one year.

Additional information on the City's long-term debt can be found in Note 6 on pages 32-35 of this report.

Economic Factors and Next Year's Budgets and Rates

The City continues to experience increases in property values resulting in increased property tax revenues. It is hoped that State of Michigan Shared Revenues will remain at previous year levels. The City held a Special Election on Tuesday, November 6, 2007 in which a Headlee Override to restore the General Fund Operating Tax Levy to 15 mils was passed. The City of Cheboygan continues to review methods for delivery of services and continues to seek grants and other funding sources.

The 2008/2009 Budget projects continued growth in property values with State Shared Revenues remaining at previous year levels. The budget includes capital expenditures for water main improvements and other improvements for the Department of Public Safety, Street Department and Parks & Recreation Department. The City of Cheboygan will continue to monitor closely its capital needs, service requirements and upcoming projects as they relate to the budget and projected revenue streams.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer's Office, City of Cheboygan, Michigan, 403 N. Huron St., PO Box 39, Cheboygan, Michigan, 49721.

Basic Financial Statements

City of Cheboygan, Michigan

Statement of Net Assets

June 30, 2008

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Totals	
ASSETS:				
Cash & Equivalents - Unrestricted	\$ 939,580	\$ 1,214,684	\$ 2,154,264	\$ 229,773
Cash & Equivalents - Restricted	1,040,434	-	1,040,434	-
Receivables:				
Accounts	9,498	275,513	285,011	-
Special Assessments	111,202	-	111,202	-
Due From Governmental Units	78,515	-	78,515	-
Due From Primary Government	-	-	-	300,000
Capital Assets Not Depreciated	6,853,792	1,065,307	7,919,099	183,865
Capital Assets (Net of Accumulated Depreciation)	8,125,946	9,259,606	17,385,552	-
TOTAL ASSETS	\$ 17,158,967	\$ 11,815,110	\$ 28,974,077	\$ 713,638
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 33,128	\$ 32,385	\$ 65,513	\$ 1,161
Accrued Liabilities	12,568	3,988	16,556	426
Accrued Interest	69,571	3,924	73,495	-
Due to Other Governmental Units	11,711	44,322	56,033	-
Due To Component Unit	300,000	-	300,000	-
Customer Deposits	-	25,891	25,891	-
Installment Loans Payable	65,193	-	65,193	-
Bonds Payable	370,000	20,000	390,000	-
Non-current Liabilities:				
Installment Loans Payable	272,164	-	272,164	-
Bonds Payable	6,367,000	515,000	6,882,000	-
Compensated Absences	262,603	-	262,603	-
TOTAL LIABILITIES	7,763,938	645,510	8,409,448	1,587
NET ASSETS:				
Invested in Capital Assets (net of related debt)	7,905,381	9,789,913	17,695,294	183,865
Restricted for Debt Service	130,784	-	130,784	-
Restricted for Capital Projects	19,801	-	19,801	-
Restricted for Retiree BC/BS	223,527	-	223,527	-
Restricted for Termination Liability	80,238	-	80,238	-
Restricted for Perpetual Care	164,138	-	164,138	-
Restricted for Trust Purposes	209,296	-	209,296	-
Unrestricted	661,864	1,379,687	2,041,551	528,186
TOTAL NET ASSETS	\$ 9,395,029	\$ 11,169,600	\$ 20,564,629	\$ 712,051

City of Cheboygan, Michigan

Statement of Activities For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 41,074	\$ -	\$ -	\$ -	\$ (41,074)	\$ -	\$ (41,074)	\$ -
General Government	778,454	55,842	-	-	(722,612)	-	(722,612)	-
Public Safety	985,417	45,915	-	-	(939,502)	-	(939,502)	-
Public Works	920,804	40,954	-	5,423,157	4,543,307	-	4,543,307	-
Recreation & Culture	364,181	211,074	30,185	-	(122,922)	-	(122,922)	-
Interest Expense - Unallocated	304,218	-	-	-	(304,218)	-	(304,218)	-
Total Governmental Activities	3,394,148	353,785	30,185	5,423,157	2,412,979	-	2,412,979	-
Business-type activities:								
Sewer	892,839	754,021	92,607	4,390	-	(41,821)	(41,821)	-
Water	434,176	432,283	-	575,798	-	573,905	573,905	-
Total Business-type Activities	1,327,015	1,186,304	92,607	580,188	-	532,084	532,084	-
Total Primary Government	\$ 4,721,163	\$ 1,540,089	\$ 122,792	\$ 6,003,345	2,412,979	532,084	2,945,063	-
Component Units:								
Downtown Development Authority	\$ 106,913	\$ -	\$ -	\$ -				(106,913)
Total Component Units	106,913	-	-	-				(106,913)
Total	\$ 4,828,076	\$ 1,540,089	\$ 122,792	\$ 6,003,345				
General Revenues:								
Property Taxes								
Operating					1,565,359	-	1,565,359	233,120
Debt					407,254	-	407,254	-
State Shared Revenue					602,600	-	602,600	-
Investment Earnings (Loss)					95,747	43,455	139,202	12,117
Local Contributions					-	-	-	6,940
Transfers					(28,117)	28,117	-	-
Total General Revenues and Transfers					2,642,843	71,572	2,714,415	252,177
Changes in Net Assets					5,055,822	603,656	5,659,478	145,264
Net Assets - Beginning					4,409,207	10,565,944	14,975,151	566,787
Prior Period Adjustment					(70,000)	-	(70,000)	-
Net Assets - Ending					<u>\$ 9,395,029</u>	<u>\$ 11,169,600</u>	<u>\$ 20,564,629</u>	<u>\$ 712,051</u>

See accompanying notes to financial statements.

City of Cheboygan, Michigan

Balance Sheet Governmental Funds June 30, 2008

	General	Major Street	Local Street	Downtown Marketing Study	City Foot Bridge	Lincoln Bridge Replacement	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:								
Cash & Equivalents - Unrestricted	\$ 475,137	\$ 8,835	\$ 39	\$ -	\$ -	\$ -	\$ 454,357	\$ 938,368
Cash & Equivalents - Restricted	-	-	-	160,080	506,920	-	373,434	1,040,434
Receivables:								
Accounts	9,174	-	-	-	-	-	324	9,498
Special Assessments	38,928	-	-	-	-	-	72,274	111,202
Due from Other Funds	367,000	-	-	-	-	-	-	367,000
Due from Governmental Units	-	57,750	20,765	-	-	-	-	78,515
TOTAL ASSETS	\$ 890,239	\$ 66,585	\$ 20,804	\$ 160,080	\$ 506,920	\$ -	\$ 900,389	\$ 2,545,017
LIABILITIES:								
Accounts Payable	\$ 18,439	\$ 878	\$ 5,011	\$ -	\$ -	\$ -	\$ -	\$ 24,328
Accrued Liabilities	10,339	1,533	183	-	-	-	-	12,055
Due to Other Funds	-	-	-	160,080	206,920	-	-	367,000
Due To Component Unit	-	-	-	-	300,000	-	-	300,000
Due to Governmental Units	11,379	-	-	-	-	-	-	11,379
Deferred Revenue	38,928	-	-	-	-	-	72,274	111,202
TOTAL LIABILITIES	79,085	2,411	5,194	160,080	506,920	-	72,274	825,964
FUND BALANCES:								
Reserved:								
Termination Liability	-	-	-	-	-	-	80,238	80,238
Retiree BC/BS	-	-	-	-	-	-	223,527	223,527
Trust Purposes	-	-	-	-	-	-	209,296	209,296
Perpetual Care	-	-	-	-	-	-	164,138	164,138
Debt Service	-	-	-	-	-	-	130,784	130,784
Capital Projects	-	-	-	-	-	-	19,801	19,801
Unreserved:								
Undesignated	811,154	64,174	15,610	-	-	-	331	891,269
TOTAL FUND BALANCES	811,154	64,174	15,610	-	-	-	828,115	1,719,053
TOTAL LIABILITIES AND FUND BALANCES	\$ 890,239	\$ 66,585	\$ 20,804	\$ 160,080	\$ 506,920	\$ -	\$ 900,389	

Reconciliation to amounts reported for governmental activities in the statement of net assets:

Capital assets used by governmental activities	14,528,288
Special assessments receivable	111,202
Compensated absences liability	(262,603)
Long-term notes & leases payable for governmental activities	(7,031,925)
Accrued interest expense	(69,571)
Internal service funds included in governmental activities	400,585
Net assets of governmental activities	\$ 9,395,029

See accompanying notes to financial statements.

City of Cheboygan, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2008

	General	Major Street	Local Street	Downtown Marketing Study	City Foot Bridge	Lincoln Bridge Replacement	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:								
Taxes	\$ 1,565,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 407,254	\$ 1,972,613
Special Assessments	13,794	-	-	-	-	-	40,046	53,840
License and Permits	11,940	-	-	-	-	-	-	11,940
State Revenues	632,785	400,520	126,725	-	-	4,895,912	-	6,055,942
Charges for Services	55,318	-	2,100	-	-	-	9,448	66,866
Interest	50,365	2,850	-	-	-	8,871	33,661	95,747
Other Revenue	17,677	-	23,253	-	-	-	221,401	262,331
TOTAL REVENUES	2,347,238	403,370	152,078	-	-	4,904,783	711,810	8,519,279
EXPENDITURES:								
Legislative	41,074	-	-	-	-	-	-	41,074
General Government	469,115	-	-	-	-	-	199,798	668,913
Public Safety	940,873	-	-	-	-	-	-	940,873
Public Works	254,550	245,114	157,816	-	-	-	-	657,480
Recreation & Cultural	264,395	-	-	-	-	-	-	264,395
Capital Outlay	-	-	-	-	-	5,438,923	3,187	5,442,110
Debt Service	-	-	-	-	-	-	676,843	676,843
TOTAL EXPENDITURES	1,970,007	245,114	157,816	-	-	5,438,923	879,828	8,691,688
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	377,231	158,256	(5,738)	-	-	(534,140)	(168,018)	(172,409)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	18,372	-	95,100	-	-	1,208	382,799	497,479
Operating Transfers Out	(188,873)	(164,642)	(87,107)	-	-	-	(79,157)	(519,779)
TOTAL OTHER FINANCING SOURCES (USES)	(170,501)	(164,642)	7,993	-	-	1,208	303,642	(22,300)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	206,730	(6,386)	2,255	-	-	(532,932)	135,624	(194,709)
FUND BALANCES, JULY 1	604,424	70,560	13,355	-	-	532,932	692,491	1,913,762
FUND BALANCES, JUNE 30	\$ 811,154	\$ 64,174	\$ 15,610	\$ -	\$ -	\$ -	\$ 828,115	\$ 1,719,053

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008**

Net Changes in fund balances - total governmental funds \$ (194,709)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$5,446,423) exceeded depreciation expense (\$453,914) in the current period.

4,992,509

Special assessments receivable are long-term in nature and are collectible over several years. However, only the current receipts are reflected as revenues in the funds.

(41,192)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments

368,741

An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

(60,346)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:

Compensated absences

(13,065)

Accrued Interest

3,884

Changes in net assets of governmental activities

\$ 5,055,822

Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business - type Activities			Governmental Activities
	Enterprise Funds		Total Business-Type	Internal Service Fund
	Sewer	Water		
ASSETS:				
Current Assets				
Cash & Equivalents - Unrestricted	\$ 886,589	\$ 328,095	\$ 1,214,684	\$ 1,212
Receivables:				
Accounts	192,512	83,001	275,513	-
Total Current Assets	1,079,101	411,096	1,490,197	1,212
Noncurrent Assets				
Capital Assets Not Depreciated	2,251	1,063,056	1,065,307	-
Capital Assets (Net of Accumulated Depreciation)	5,922,419	3,337,187	9,259,606	451,450
Total Noncurrent Assets	5,924,670	4,400,243	10,324,913	451,450
TOTAL ASSETS	\$ 7,003,771	\$ 4,811,339	\$ 11,815,110	\$ 452,662
LIABILITIES:				
Current Liabilities				
Accounts Payable	\$ 28,433	\$ 3,952	\$ 32,385	\$ 8,800
Accrued Liabilities	2,320	1,668	3,988	513
Due to Other Governmental Units	44,322	-	44,322	332
Customer Deposits	5,195	20,696	25,891	-
Accrued Interest	-	3,924	3,924	-
Installment Loans Payable	-	-	-	42,432
Bonds Payable	-	20,000	20,000	-
Total Current Liabilities	80,270	50,240	130,510	52,077
Noncurrent Liabilities				
Bonds Payable	-	515,000	515,000	-
TOTAL LIABILITIES	80,270	565,240	645,510	52,077
NET ASSETS:				
Invested in Capital Assets (net of related debt)	5,924,670	3,865,243	9,789,913	409,018
Unrestricted	998,831	380,856	1,379,687	(8,433)
TOTAL NET ASSETS	\$ 6,923,501	\$ 4,246,099	\$ 11,169,600	\$ 400,585

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
For the Year Ended June 30, 2008**

	Business - type Activities			Governmental Activities
	Enterprise Funds		Total Business- Type	Internal Service Fund
	Sewer	Water		
OPERATING REVENUES:				
Charges for Services	\$ 729,668	\$ 410,831	\$ 1,140,499	\$ 312,000
Total Operating Revenues	729,668	410,831	1,140,499	312,000
OPERATING EXPENSES:				
Personal Services	287,235	189,722	476,957	74,904
Contracted Services	58,161	19,787	77,948	2,775
Insurance	19,488	2,620	22,108	23,463
Equipment Rental	25,364	13,965	39,329	422
Supplies	86,034	36,871	122,905	79,604
Utilities	139,276	46,513	185,789	19,320
Repair and Maintenance	-	1,805	1,805	61,541
Depreciation	277,281	98,985	376,266	100,779
Miscellaneous	-	822	822	-
Total Operating Expenses	892,839	411,090	1,303,929	362,808
OPERATING INCOME (LOSS)	(163,171)	(259)	(163,430)	(50,808)
NON-OPERATING REVENUES (EXPENSES):				
Interest Income	27,372	16,083	43,455	-
Capital Grants	4,390	575,798	580,188	-
Local Sources	92,607	-	92,607	-
Penalties	18,395	8,429	26,824	-
Miscellaneous Revenue	5,958	13,023	18,981	-
Interest Expense	-	(23,086)	(23,086)	(3,721)
Total Non-operating Revenues (Expenses)	148,722	590,247	738,969	(3,721)
Income (loss) before transfers	(14,449)	589,988	575,539	(54,529)
Operating Transfers In	55,117	-	55,117	-
Operating Transfers Out	(15,000)	(12,000)	(27,000)	(5,817)
CHANGES IN NET ASSETS	25,668	577,988	603,656	(60,346)
NET ASSETS, JULY 1	6,897,833	3,668,111	10,565,944	460,931
NET ASSETS, JUNE 30	<u>\$ 6,923,501</u>	<u>\$ 4,246,099</u>	<u>\$ 11,169,600</u>	<u>\$ 400,585</u>

**Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2008**

	Business - Type Activities		Governmental Activities
	Enterprise Funds		Internal Service Fund
	Sewer	Water	Total Business-Type
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 700,879	\$ 404,582	\$ 1,105,461
Payments to Suppliers	(291,894)	(120,018)	(411,912)
Payments to Employees	(291,565)	(192,886)	(484,451)
Internal Activity - Payments/Receipts with Other Funds	-	-	309,866
Net Cash Provided (Used) by Operating Activities	117,420	91,678	209,098
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
Penalties	18,395	8,429	26,824
Local Sources	92,607	-	92,607
Other Revenue	5,958	13,023	18,981
Operating transfers in	55,117	-	55,117
Operating transfers out	(15,000)	(12,000)	(27,000)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	157,077	9,452	166,529
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(24,525)	(1,063,056)	(1,087,581)
Capital Grants	4,390	575,798	580,188
Interest Payments	-	(22,704)	(22,704)
Principal Payments	-	(15,000)	(15,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(20,135)	(524,962)	(545,097)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	27,372	16,083	43,455
Net Cash Provided (Used) by Investing Activities	27,372	16,083	43,455
Net Increase (Decrease) in Cash and Equivalents	281,734	(407,749)	(126,015)
Balances - Beginning of the Year	604,855	735,844	1,340,699
Balances - End of the Year	\$ 886,589	\$ 328,095	\$ 1,214,684
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (163,171)	\$ (259)	\$ (163,430)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	277,281	98,985	376,266
Change in Assets and Liabilities:			
(Increase) Decrease in Assets:			
Accounts Receivable	(33,984)	(11,712)	(45,696)
Increase (Decrease) in Liabilities:			
Accounts Payable	26,311	2,365	28,676
Accrued Liabilities	(4,330)	(3,164)	(7,494)
Due to other funds	-	-	-
Customer Deposits	5,195	5,463	10,658
Due to Other Governmental Units	10,118	-	10,118
Net Cash Provided (Used) by Operating Activities	\$ 117,420	\$ 91,678	\$ 209,098

See accompanying notes to financial statements.

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Agency Funds</u>
ASSETS:	
Cash & Equivalents - Unrestricted	\$ 9,827
Note Receivable	<u>2,648,959</u>
 TOTAL ASSETS	 <u><u>\$ 2,658,786</u></u>
 LIABILITIES:	
Due to Other Governmental Units	\$ 9,827
Due to State	<u>2,648,959</u>
 TOTAL LIABILITIES	 <u><u>\$ 2,658,786</u></u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Reporting Entity**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of *the City of Cheboygan* (the "City") and its component units. The component units discussed below are included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Units

The Downtown Development Authority (the "DDA") is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing board of the DDA are appointed by the City Council. The budgets and expenditures of the DDA must be approved by the City Council. The City also has the ability to significantly influence operations of the DDA. Separate financial statements of the DDA have not been prepared.

The Cheboygan Brownfield Redevelopment Authority is an entity legally separate from the City. The Authority is governed by a board appointed by the City Council and is reported as if it were part of the City's operations because it is financially accountable to the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statutes for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street purposes.

The *Downtown Marketing Study Fund* accounts for the use of grants received for the study of downtown marketing.

The *City Foot Bridge Fund* accounts for the use of grants received for construction of the City foot bridge.

The *Lincoln Bridge Replacement Fund* accounts for the bond proceeds and federal and state grants received and the related construction costs of the Lincoln Street Bridge replacement.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for the activities of the City's sewage disposal and sewer treatment system.

The *Water Fund* accounts for the activities of the City's water distribution and water treatment system.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Capital Project Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Internal Service Fund. This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Agency Funds. These funds account for assets held for others in an agency capacity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. Property taxes, state revenue, and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The government-wide financial statements and proprietary funds of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and proprietary type funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Equity***Deposits and Investments***

The City maintains an investment pool for certain City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and equivalents". The debt service and trust and agency funds cash resources are invested separately as required by law.

The City's cash and equivalents includes cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City's investment policy allows the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted of certificate of deposits and prime vest sweep account, which is invested in money market funds.

Receivables and Payables

All receivables are reported at their gross value.

The City has not established an allowance for uncollectible accounts since, in the opinion of management the amount is not significant.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reports as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through July 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan City.

Property taxes for the DDA are derived by capturing the taxes assessed on the increase in taxable value of the property located within the DDA district.

Property taxes are recognized in the fiscal year in which they are levied.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings	15-40 years
Land improvements	10-40 years
Equipment	3-30 years
Public domain infrastructure	30 years
Sewer and water infrastructure	7-75 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example as a result of employee resignations or retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each June, after receiving input from the individual departments, the City Manager prepares a proposed operating budget for the fiscal period commencing July 1 and lapses on June 30. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through a resolution passed by the City Council.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the City Council. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The City does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the City Council during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents -					
Unrestricted	\$ 939,580	\$ 1,214,684	\$ 2,154,264	\$ 9,827	\$ 229,773
Cash and Equivalents -					
Restricted	<u>1,040,434</u>	<u>-</u>	<u>1,040,434</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,980,014</u>	<u>\$ 1,214,684</u>	<u>\$ 3,194,698</u>	<u>\$ 9,827</u>	<u>\$ 229,773</u>

Cash is restricted in the amount of \$1,040,434 per the following: \$160,080 for Downtown Marketing Study, \$506,920 for the City Foot Bridge, \$209,296 for the Spies Endowment Fund, and \$164,138 for Perpetual Care.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 3,193,698	\$ 9,827	\$ 229,773
Petty Cash and Cash on Hand	<u>1,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,194,698</u>	<u>\$ 9,827</u>	<u>\$ 229,773</u>

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. Credit quality ratings of future money funds were not available from the financial institutions or are unrated.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$3,207,751 of the City's bank balance of \$3,479,324 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the City to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The City's deposits and investment policy are in accordance with statutory authority.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 343,216	\$ -	\$ -	\$ -	\$ 343,216
Construction-in-process	<u>1,071,653</u>	<u>5,438,923</u>	<u>-</u>	<u>-</u>	<u>6,510,576</u>
Subtotal	<u>1,414,869</u>	<u>5,438,923</u>	<u>-</u>	<u>-</u>	<u>6,853,792</u>
<i>Capital assets being depreciated:</i>					
Buildings and improvements	5,451,861	-	-	-	5,451,861
Land improvements	3,827,589	-	-	-	3,827,589
Equipment	3,423,794	7,500	-	-	3,431,294
Infrastructure	<u>3,259,498</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,259,498</u>
Subtotal	<u>15,962,742</u>	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>15,970,242</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:					
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(1,477,805)	(132,366)	-	-	(1,610,171)
Land improvements	(1,732,037)	(168,936)	-	-	(1,900,973)
Equipment	(2,512,623)	(144,875)	-	-	(2,657,498)
Infrastructure	(1,567,138)	(108,516)	-	-	(1,675,654)
Subtotal	(7,289,603)	(554,693)	-	-	(7,844,296)
Net capital assets being depreciated	8,673,139	(547,193)	-	-	8,125,946
Governmental Activities Capital Assets – Net of Depreciation	<u>\$ 10,088,008</u>	<u>\$ 4,891,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,979,738</u>
Business-type activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 2,251	\$ -	\$ -	\$ -	\$ 2,251
Construction-in-process	62,804	1,063,056	(62,804)	-	1,063,056
Subtotal	65,055	1,063,056	(62,804)	-	1,065,307
<i>Capital assets being depreciated:</i>					
Buildings and improvements	2,321,996	24,525	-	-	2,346,521
Sewer system	7,499,396	-	62,804	-	7,562,200
Water system	5,163,218	-	-	-	5,163,218
Equipment	2,812,099	-	-	-	2,812,099
Subtotal	17,796,709	24,525	62,804	-	17,884,038
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(1,681,891)	(58,051)	-	-	(1,739,942)
Sewer system	(2,248,580)	(117,389)	-	-	(2,365,969)
Water system	(1,727,049)	(98,985)	-	-	(1,826,034)
Equipment	(2,590,646)	(101,841)	-	-	(2,692,487)
Subtotal	(8,248,166)	(376,266)	-	-	(8,624,432)
Net capital assets being depreciated	9,548,543	(351,741)	62,804	-	9,259,606
Business-type Activities Capital Assets - Net of Depreciation	<u>\$ 9,613,598</u>	<u>\$ 711,315</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,324,913</u>
Component Unit:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Construction-in-process	33,865	-	-	-	33,865
Net Capital Assets Being Depreciated	<u>\$ 183,865</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,865</u>

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General government	\$ 104,322
Public Safety	31,516
Public Works	213,017
Recreation and Culture	105,059
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>100,779</u>

**Total Depreciation Expense -
Governmental Activities**

\$ 554,693

Business-type Activities

Sewer	\$ 277,281
Water	<u>98,985</u>

**Total Depreciation Expense -
Business-type Activities**

\$ 376,266

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund Receivables and Payables are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	
		General Fund
	City Foot Bridge	\$ 206,920
	Downtown Marketing Study	<u>160,080</u>
	Total	<u>\$ 367,000</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund Transfers:

TRANSFERS IN							
TRANSFERS OUT		General Fund	Local Streets Fund	Lincoln Bridge Fund	Sewer Fund	Nonmajor Governmental Funds	Totals
	General Fund	\$ -	\$ 46,055	\$ -	\$ -	\$ 142,818	\$ 188,873
	Major Street Fund	-	49,045	1,208	-	114,389	164,642
	Local Street Fund	-	-	-	-	87,107	87,107
	Sewer Fund	-	-	-	-	15,000	15,000
	Water Fund	-	-	-	-	12,000	12,000
	Nonmajor Governmental Funds	18,372	-	-	55,117	5,668	79,157
	Internal Service Fund	-	-	-	-	5,817	5,817
	Total	\$ 18,372	\$ 95,100	\$ 1,208	\$ 55,117	\$ 382,799	\$ 552,596

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. City contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	Beginning Balance	Increases/ Adjustments	Decreases	Ending Balance	Due Within One Year
Governmental Activities – Bonds Payable					
1997 Rural Economic Development Bonds, maturing serially to 2037 in annual amounts ranging from \$19,000 to \$108,000 and bearing interest at 4.5%	\$ 1,771,000	\$ -	\$ 29,000	\$ 1,742,000	\$ 30,000
2004 General Obligation Bonds. Bonds maturing serially to 2023 in annual payments ranging from \$25,000 to \$105,000 and bearing interest of 3.25% to 5.15%.	1,255,000	-	40,000	1,215,000	50,000

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities – Bonds Payable (Continued)					
2002 Major and Local Street General Obligation Bonds, maturing serially to 2012 in annual amounts ranging from \$25,000 to \$45,000 and bearing interest at 3.95%.	200,000	-	35,000	165,000	40,000
1997 Michigan Transportation Fund Bonds, maturing serially to 2012 in annual amounts ranging from \$15,000 to \$30,000 and bearing interest ranging from 4% to 5.8%.	135,000	-	25,000	110,000	25,000
2000 Special Assessment Streetscape Bonds, maturing serially to 2010 in annual amounts ranging from \$10,000 to \$30,000 and bearing interest ranging from 5.0% to 7.0%.	80,000	-	25,000	55,000	25,000
1998 Local Street Paving Bonds, maturing serially to 2009 in annual amounts ranging from \$20,000 to \$30,000 and bearing interest ranging from 3.9% to 4.7%.	60,000	-	30,000	30,000	30,000
2001 Sidewalk Improvement General Obligation Bonds, maturing serially to 2012 in annual amounts ranging from \$4,000 to \$10,000 and bearing interest at 4.15%.	50,000	-	10,000	40,000	10,000
2001 Sidewalk Improvement Special Assessment Limited Tax General Obligation Bonds, maturing serially to 2012 in annual amounts ranging from \$3,000 to \$10,000 and bearing interest at 4.15%.	40,000	-	5,000	35,000	5,000
2006 General Obligation Unlimited Tax Refunding Bonds, maturing serially to 2022 In annual amounts ranging from \$20,000 to \$265,000 and bearing interest from 3.6% to 4.0%.	2,615,000	70,000	105,000	2,580,000	110,000
2006 Michigan Transportation Fund Bonds, maturing serially to 2017 in annual amounts ranging from \$25,000 to \$45,000 and bearing interest ranging from 4.1% to 4.7%.	315,000	-	30,000	285,000	30,000

NOTE 6 - LONG-TERM DEBT (Continued)

	Beginning Balance	Increases/ Adjustments	Decreases	Ending Balance	Due Within One Year
Governmental Activities – Bonds Payable (Continued)					
2007 General Obligation Capital Improvement Bonds, maturing serially to 2027 in annual Amounts ranging from \$15,000 to \$40,000 and Bearing interest ranging from 3.75% to 4.15%.	495,000	-	15,000	480,000	15,000
Total Governmental Activities – Bonds Payable	7,016,000	70,000	349,000	6,737,000	370,000
Business-type Activities – Bond Payable					
2007 Water Supply System Revenue Bonds, maturing serially to 2027 in annual amounts ranging from \$15,000 to \$40,000 and bearing interest at 4.25% to 4.625.	550,000	-	15,000	535,000	20,000
Total Business-type Activities – Bond Payable	550,000	-	15,000	535,000	20,000
Governmental Activities Installment Loans Payable					
2000 Act 99 Equipment, note payable with annual payments of \$25,628 including interest at 5.48%.	47,241	-	22,975	24,266	24,266
2003 Act 99 Equipment, note payable with annual payments of \$22,260 including interest at 2.691%.	88	-	88	-	-
2004 GMC Top Kick Act 99, note payable with monthly payments of \$18,715 including interest at 3.042%.	35,806	-	17,640	18,166	18,166
2006 Act 99 Energy Equipment, note payable with semi-annual payments ranging from \$16,035 to \$26,737 including interest at 3.98%.	314,666	-	19,741	294,925	22,761
Subtotal Governmental Activities Installment Loans Payable	397,801	-	60,444	337,357	65,193
Accumulated compensated absences	249,538	13,065	-	262,603	-
Total General Long-Term Debt	647,339	13,065	60,444	599,960	65,193
Total Long-Term Debt	\$ 8,213,339	\$ 83,065	\$ 424,444	\$ 7,871,960	\$ 455,193

Accumulated compensated absences are generally liquidated by the General Fund.

NOTE 6 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities Bonds Payable		Business-type Activities Bond Payable		Governmental Activities Installment Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal:						
2009	\$ 370,000	\$ 278,556	\$ 20,000	\$ 23,544	\$ 65,193	\$ 13,424
2010	362,000	263,581	20,000	22,694	26,099	10,575
2011	358,000	248,989	20,000	21,844	29,788	9,500
2012	390,000	234,075	20,000	20,994	33,863	8,274
2013	311,000	218,506	20,000	20,144	38,361	6,882
2014-2018	1,756,000	889,608	120,000	86,506	144,053	10,390
2019-2023	1,827,000	504,782	160,000	57,000	-	-
2024-2028	571,000	235,980	155,000	17,976	-	-
2029-2033	399,000	134,890	-	-	-	-
2034-2037	393,000	36,608	-	-	-	-
TOTALS	\$ 6,737,000	\$ 3,045,575	\$ 535,000	\$ 270,702	\$ 337,357	\$ 59,045

Accumulated Sick and Vacation Pay

Employees of the City earn sick and vacation time at varying rates based on the following:

Under the terms of the Police and AFCSME union contract (DPW, sewer and clerical employees), sick leave is accumulated at the rate of one day for each month of service, with a maximum accumulation of 60 days. Employees who have accumulated more than 60 days will not be allowed additional accumulation. Upon retirement or death, employees will be paid out 100% of days accumulated up to a maximum of 60 days.

As a result of separation for any other reason, the employees will lose all accumulated sick leave.

City management personnel earn sick leave at a rate of eight hours per month of service. All unused sick time is paid out, generally in November of each year, at 50% of the employee's current rate of pay.

Vacation leave is earned based on the following schedule for all employees:

<u>Years of Service</u>	<u>Vacation Days</u>
1	2 weeks
5	3 weeks
10	4 weeks
20	4 weeks plus ½ day for each year beyond 20 years

NOTE 6 - LONG-TERM DEBT (Continued)

No more than 50% of an employee's annual vacation leave may be carried over to the next employment year and no accumulation is allowed beyond six weeks of annual leave.

The accumulated sick and vacation pay liability is \$262,603 at June 30, 2008. The City has established a Termination Liability Special Revenue Fund to accumulate amounts necessary to cover this liability as it becomes due. The balance in the Termination Liability Fund at June 30, 2008 is \$80,238.

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**Plan Description**

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 9.59% to 14.59% of annual covered payroll. City employees are required to contribute 4.7% of all covered wages. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2008, the City's annual pension cost of \$187,405 for MERS was equal to the City's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the last actuarial valuation, was 30 years.

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Three-year Trend Information			
Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 139,344	100%	0
2007	170,549	100%	0
2008	187,405	100%	0

Three year trend information as of June 30 follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial Value of Assets	\$ 6,011,983	\$ 6,297,233	\$ 6,624,541
Actuarial Accrued Liability	7,906,518	8,056,982	8,507,186
Unfunded AAL	1,894,535	1,759,749	1,882,645
Funded Ratio	76%	78%	78%
Covered Payroll	1,314,235	1,278,407	1,329,611
UAAL as a Percentage of Covered Payroll	144%	138%	141%

NOTE 9 - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, the City provides post-employment health care benefits, in accordance with City policy, to all employees hired prior to April 27, 1999 who retire from the City on or after attaining age 55 with 25 years of service or retirement at age 62. Currently eight employees meet those eligibility requirements. The City will pay a pre-established monthly amount towards the employees health insurance cost through the age of 65, with a 3% increase each year. Expenditures for post employment healthcare benefits are recognized as incurred. During the fiscal year ended June 30, 2008, expenditures of \$99,209 were recognized for post employment healthcare.

NOTE 10 - CONDUIT DEBT

On August 6, 1994, the City borrowed \$3,000,000 from the United States Department of Housing and Urban Development (HUD) under the provisions of Section 108 of the Housing and Community Development Act of 1974, as amended, for the Great Lakes Tissue Company Project. This loan was used to assist the Great Lakes Tissue Company in connection with the purchase of the former Proctor & Gamble Company facility.

On September 17, 1994 Great Lakes Tissue Company signed a note receivable with the City of Cheboygan for \$3,000,000 representing amounts owed to the City from Great Lakes Tissue Company for the economic development project designed to establish additional employment in the City of Cheboygan. The outstanding note receivable balance as of June 30, 2008 is \$2,648,959. Because this receivable is not available for use by the City, a liability has been recorded, in the amount of \$2,648,959, to offset the receivable balance.

NOTE 10 - CONDUIT DEBT (Continued)

During the year ended June 30, 2005, the State of Michigan loaned funds to Great Lakes Tissue Company, which were used to repay the loan to HUD. The note payable from the State of Michigan to Great Lakes Tissue Company is due in monthly installments ranging from \$17,000 to \$25,000, beginning January 1, 2005 with interest charged at 7%. The final payment is due January 1, 2025. The note payable is secured by a second priority security interest covering all machinery and equipment and second priority mortgage covering all real property. The note payable is to be repaid with principal and interest payments received from Great Lakes Tissue Company. Future annual principal and interest payments are scheduled as follows: \$204,000 in 2008 through 2010, \$252,000 in 2011 and \$300,000 through 2023 and \$185,000 in 2024. The outstanding balance, to the State of Michigan, at June 30, 2008 is \$2,648,959.

Neither the full faith and credit nor the taxing power of the City is pledged for the payment of the notes. Since the debt payments are being made by Great Lakes Tissue Company, the debt has not been recorded by the City.

NOTE 11 - SEGMENT INFORMATION – ENTERPRISE FUND

Segment information for the year ended June 30, 2008 is as follows:

	<u>Water</u>
Nonoperating revenue (expense)	\$ 590,247
Operating income (loss)	(259)
Changes in net assets	577,988
Operating revenues	410,831
Operating expenses	411,090
Operating transfers – net	(12,000)
Depreciation	98,985
Total assets	4,811,339
Current liabilities	50,240
Long-term debt payable	515,000
Beginning net assets	3,668,111
Ending net assets	4,246,099
Cash provided by:	
Operating activities	91,678
Noncapital financing	9,452
Capital financing	(524,962)
Investing	16,083
Beginning cash	735,844
Ending cash	328,095

NOTE 12 - PRIOR PERIOD ADJUSTMENT

Net assets of governmental activities will be decreased as follows:

Beginning Net Assets July 1, 2007	\$ 4,409,207
Adjustment for principal not advance refunded	<u>(70,000)</u>
Restated Net Assets June 30, 2008	<u>\$ 4,339,207</u>

Required Supplementary Information

City of Cheboygan, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,522,900	\$ 1,548,250	\$ 1,565,359	\$ 17,109
Special Assessments	14,000	11,500	13,794	2,294
Licenses & Permits	16,200	8,500	11,940	3,440
Federal Sources	3,750	-	-	-
State Sources	603,000	654,000	632,785	(21,215)
Charges for Services	47,500	48,450	55,318	6,868
Interest	30,000	49,000	50,365	1,365
Other Revenue	30,000	24,700	17,677	(7,023)
TOTAL REVENUES	2,267,350	2,344,400	2,347,238	2,838
EXPENDITURES:				
Legislative:				
City Council	38,770	41,770	41,074	696
General Government:				
City Manager	112,800	124,800	127,746	(2,946)
Clerk - Treasurer	167,550	173,750	170,124	3,626
Clerk - Elections	7,100	6,150	7,485	(1,335)
Assessor	67,000	67,150	61,347	5,803
Board of Review	4,850	3,850	3,958	(108)
City Hall and Grounds	141,905	151,455	98,455	53,000
Total General Government	501,205	527,155	469,115	58,040
Public Safety:				
Police Department	847,450	857,800	811,743	46,057
Fire Department	100,600	101,650	110,898	(9,248)
Parking	17,700	19,850	18,232	1,618
Total Public Safety	965,750	979,300	940,873	38,427
Public Works:				
Public Works	240,450	217,900	186,596	31,304
Street Lighting	68,000	68,000	67,954	46
Total Public Works	308,450	285,900	254,550	31,350
Recreation and Culture:				
Recreation Department	217,800	256,800	231,146	25,654
Opera House	17,950	17,950	17,900	50
Soccer Field	-	-	188	(188)
Humane Society	2,900	2,900	2,900	-
Promotion	10,500	10,500	12,261	(1,761)
Total Recreation & Culture	249,150	288,150	264,395	23,755
TOTAL EXPENDITURES	2,063,325	2,122,275	1,970,007	152,268
EXCESS OF REVENUES OVER EXPENDITURES	204,025	222,125	377,231	155,106
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	18,372	18,372
Operating Transfers Out	(204,025)	(205,425)	(188,873)	16,552
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ 16,700	206,730	\$ 190,030
FUND BALANCE, JULY 1			604,424	
FUND BALANCE, JUNE 30			\$ 811,154	

City of Cheboygan, Michigan

Required Supplementary Information Budgetary Comparison Schedule Major Street Fund For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 387,000	\$ 410,700	\$ 400,520	\$ (10,180)
Interest	2,600	2,800	2,850	50
TOTAL REVENUES	389,600	413,500	403,370	(10,130)
EXPENDITURES:				
Public Works	254,875	249,805	245,114	4,691
EXCESS OF REVENUES OVER EXPENDITURES	134,725	163,695	158,256	(5,439)
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(134,725)	(163,695)	(164,642)	(947)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	(6,386)	<u>\$ (6,386)</u>
FUND BALANCE, JULY 1			70,560	
FUND BALANCE, JUNE 30			<u>\$ 64,174</u>	

City of Cheboygan, Michigan

Required Supplementary Information Budgetary Comparison Schedule Local Street Fund For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 135,000	\$ 135,000	\$ 126,725	\$ (8,275)
Charges for Services	6,000	1,400	2,100	700
Other Revenue	22,000	23,250	23,253	3
TOTAL REVENUES	163,000	159,650	152,078	(7,572)
EXPENDITURES:				
Public Works	171,150	198,600	157,816	40,784
EXCESS OF REVENUES OVER EXPENDITURES	(8,150)	(38,950)	(5,738)	33,212
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	123,950	126,170	95,100	(31,070)
Operating Transfers Out	(90,400)	(87,200)	(87,107)	93
TOTAL OTHER FINANCING SOURCES (USES)	33,550	38,970	7,993	(30,977)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 25,400	\$ 20	2,255	\$ 2,235
FUND BALANCE, JULY 1			13,355	
FUND BALANCE, JUNE 30			\$ 15,610	

Other Supplementary Information

City of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue Funds				Debt Service Funds				
	Cemetery	Retiree BC/BS Investment Fund	PA 222 Liability	Termination Liability	1997 Rural Economic Development Loan	1998 Local Street Paving Bond	1996 Street Paving Bonds	2000 Sidewalk Special Assessment Bond	2001 Sidewalk Special Assessment Bond
ASSETS:									
Cash & Equivalents - Unrestricted	\$ 7	\$ 223,527	\$ -	\$ 80,238	\$ 20,387	\$ -	\$ -	\$ 25,029	\$ 28,914
Cash & Equivalents - Restricted	-	-	-	-	-	-	-	-	-
Receivables:									
Accounts	324	-	-	-	-	-	-	-	-
Special Assessments	-	-	-	-	-	-	-	52,980	19,294
TOTAL ASSETS	\$ 331	\$ 223,527	\$ -	\$ 80,238	\$ 20,387	\$ -	\$ -	\$ 78,009	\$ 48,208
LIABILITIES:									
Deferred Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,980	\$ 19,294
TOTAL LIABILITIES	-	-	-	-	-	-	-	52,980	19,294
FUND BALANCES:									
Reserved:									
Retiree BC/BS	-	223,527	-	-	-	-	-	-	-
Trust Purposes	-	-	-	-	-	-	-	-	-
Termination Liability	-	-	-	80,238	-	-	-	-	-
Perpetual Care	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	20,387	-	-	25,029	28,914
Capital Projects	-	-	-	-	-	-	-	-	-
Unreserved:									
Undesignated	331	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES	331	223,527	-	80,238	20,387	-	-	25,029	28,914
TOTAL LIABILITIES AND FUND BALANCES	\$ 331	\$ 223,527	\$ -	\$ 80,238	\$ 20,387	\$ -	\$ -	\$ 78,009	\$ 48,208

City of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Debt Service Funds							Capital Project Funds	
	2001 Sidewalk General Obligation Bond	2002 Transportation Bond	2004 General Obligation Bond	2006 Refunding Bond Debt	Transportation Bond Debt	2006 Energy Upgrade	2007 Water System Debt Fund	2004 General Obligation Bond Construction	2006 Paving Capital Project
ASSETS:									
Cash & Equivalents - Unrestricted	\$ -	\$ -	\$ 20,659	\$ 35,795	\$ -	\$ -	\$ -	\$ 7,554	\$ 12,247
Cash & Equivalents - Restricted	-	-	-	-	-	-	-	-	-
Receivables:									
Accounts	-	-	-	-	-	-	-	-	-
Special Assessments	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,659</u>	<u>\$ 35,795</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,554</u>	<u>\$ 12,247</u>
LIABILITIES:									
Deferred Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:									
Reserved:									
Retiree BC/BS	-	-	-	-	-	-	-	-	-
Trust Purposes	-	-	-	-	-	-	-	-	-
Termination Liability	-	-	-	-	-	-	-	-	-
Perpetual Care	-	-	-	-	-	-	-	-	-
Debt Service	-	-	20,659	35,795	-	-	-	-	-
Capital Projects	-	-	-	-	-	-	-	7,554	12,247
Unreserved:									
Undesignated	-	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>20,659</u>	<u>35,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,554</u>	<u>12,247</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,659</u>	<u>\$ 35,795</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,554</u>	<u>\$ 12,247</u>

City of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Capital Project Fund	Permanent Fund	
	Spies Endowment Fund	Cemetery Perpetual Care	Totals
ASSETS:			
Cash & Equivalents - Unrestricted	\$ -	\$ -	\$ 454,357
Cash & Equivalents - Restricted	209,296	164,138	373,434
Receivables:			
Accounts	-	-	324
Special Assessments	-	-	72,274
TOTAL ASSETS	\$ 209,296	\$ 164,138	\$ 900,389
LIABILITIES:			
Deferred Revenue	\$ -	\$ -	\$ 72,274
TOTAL LIABILITIES	-	-	72,274
FUND BALANCES:			
Reserved:			
Retiree BC/BS	-	-	223,527
Trust Purposes	209,296	-	209,296
Termination Liability	-	-	80,238
Perpetual Care	-	164,138	164,138
Debt Service	-	-	130,784
Capital Projects	-	-	19,801
Unreserved:			
Undesignated	-	-	331
TOTAL FUND BALANCES	209,296	164,138	828,115
TOTAL LIABILITIES AND FUND BALANCES	\$ 209,296	\$ 164,138	\$ 900,389

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended June 30, 2008

	Special Revenue Funds				Debt Service Funds				
	Cemetery	Retiree BC/BS Investment Fund	PA 222 Liability	Termination Liability	1997 Rural Economic Development Loan	1998 Local Street Paving Bond	1996 Street Paving Bonds	2000 Sidewalk Special Assessment Bond	2001 Sidewalk Special Assessment Bond
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 107,159	\$ -	\$ -	\$ -	\$ -
Special Assessment	-	-	-	-	-	-	-	31,924	8,122
Charges for Services	6,228	-	-	-	-	-	-	-	-
Interest	-	7,497	1,829	3,370	1,595	-	-	692	522
Other Revenue	350	-	-	8,802	-	-	-	-	-
TOTAL REVENUES	6,578	7,497	1,829	12,172	108,754	-	-	32,616	8,644
EXPENDITURES:									
General Government	63,685	99,209	-	36,904	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	108,560	32,108	31,900	28,650	6,556
TOTAL EXPENDITURES	63,685	99,209	-	36,904	108,560	32,108	31,900	28,650	6,556
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(57,107)	(91,712)	1,829	(24,732)	194	(32,108)	(31,900)	3,966	2,088
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	56,668	98,150	-	-	-	32,108	31,900	-	-
Operating Transfers Out	-	-	(73,489)	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	56,668	98,150	(73,489)	-	-	32,108	31,900	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(439)	6,438	(71,660)	(24,732)	194	-	-	3,966	2,088
FUND BALANCES, JULY 1	770	217,089	71,660	104,970	20,193	-	-	21,063	26,826
FUND BALANCES, JUNE 30	\$ 331	\$ 223,527	\$ -	\$ 80,238	\$ 20,387	\$ -	\$ -	\$ 25,029	\$ 28,914

City of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended June 30, 2008

	Debt Service Funds							Capital Project Funds	
	2001 Sidewalk General Obligation Bond	2002 Transportation Bond	2004 General Obligation Bond	2006 Refunding Bond Debt	2006 Transportation Bond Debt	2006 Energy Upgrade	2007 Capital Improvement Bonds	2004 General Obligation Bond Construction	2006 Paving Capital Project
REVENUES:									
Taxes	\$ -	\$ -	\$ 96,422	\$ 203,673	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessment	-	-	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-	-	-	-
Interest	-	-	2,081	3,220	-	-	-	-	-
Other Revenue	-	-	-	-	-	2,953	-	-	-
TOTAL REVENUES	-	-	98,503	206,893	-	2,953	-	-	-
EXPENDITURES:									
General Government	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	3,187	-
Debt Service	11,868	42,900	96,493	205,650	44,073	32,070	36,015	-	-
TOTAL EXPENDITURES	11,868	42,900	96,493	205,650	44,073	32,070	36,015	3,187	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(11,868)	(42,900)	2,010	1,243	(44,073)	(29,117)	(36,015)	(3,187)	-
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	11,868	42,900	-	-	44,073	29,117	36,015	-	-
Operating Transfers Out	-	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	11,868	42,900	-	-	44,073	29,117	36,015	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	-	2,010	1,243	-	-	-	(3,187)	-
FUND BALANCES, JULY 1	-	-	18,649	34,552	-	-	-	10,741	12,247
FUND BALANCES, JUNE 30	\$ -	\$ -	\$ 20,659	\$ 35,795	\$ -	\$ -	\$ -	\$ 7,554	\$ 12,247

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended June 30, 2008

	Capital Project Fund	Permanent Fund	
	Spies Endowment Fund	Cemetery Perpetual Care	Totals
REVENUES:			
Taxes	\$ -	\$ -	407,254
Special Assessment	-	-	40,046
Charges for Services	-	3,220	9,448
Interest	-	12,855	33,661
Other Revenue	209,296	-	221,401
TOTAL REVENUES	209,296	16,075	711,810
EXPENDITURES:			
General Government	-	-	199,798
Capital Outlay	-	-	3,187
Debt Service	-	-	676,843
TOTAL EXPENDITURES	-	-	879,828
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	209,296	16,075	(168,018)
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	-	-	382,799
Operating Transfers Out	-	(5,668)	(79,157)
TOTAL OTHER FINANCING SOURCES (USES)	-	(5,668)	303,642
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	209,296	10,407	135,624
FUND BALANCES, JULY 1	-	153,731	692,491
FUND BALANCES, JUNE 30	\$ 209,296	\$ 164,138	\$ 828,115

City of Cheboygan, Michigan

Combining Balance Sheet Component Units June 30, 2008

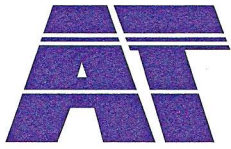
	Downtown Development Authority	Brownfield Redevelopment Authority	Adjustments	Statement of Net Assets
ASSETS:				
Cash & Equivalents - Unrestricted	\$ 215,873	\$ 13,900	\$ -	\$ 229,773
Due from Primary Government	300,000	-	-	300,000
Capital Assets not being depreciated	-	-	183,865	183,865
TOTAL ASSETS	515,873	13,900	183,865	713,638
LIABILITIES:				
Accounts Payable	\$ 1,161	\$ -	\$ -	\$ 1,161
Accrued Liabilities	426	-	-	426
TOTAL LIABILITIES	1,587	-	-	1,587
FUND BALANCE:				
Unreserved	514,286	13,900	-	528,186
TOTAL LIABILITIES & FUND BALANCE	\$ 515,873	\$ 13,900		
NET ASSETS:				
Invested in capital assets			183,865	183,865
Unrestricted			528,186	528,186
Total net assets			\$ 712,051	\$ 712,051

City of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance/Net Assets Component Units For the Year Ended June 30, 2008

	Downtown Development Authority	Brownfield Redevelopment Authority	Adjustments	Statement of Net Assets
REVENUES:				
Taxes	\$ 219,220	\$ 13,900	\$ -	\$ 233,120
Interest	12,117	-	-	12,117
Other Revenue	6,940	-	-	6,940
TOTAL REVENUES	238,277	13,900	-	252,177
EXPENDITURES:				
Public Works	106,913	-	-	106,913
TOTAL EXPENDITURES/EXPENSES	106,913	-	-	106,913
Change in fund balance/net assets	131,364	13,900	-	145,264
Fund balance/net assets beginning of year	382,922	-	183,865	566,787
Fund balance/net assets end of year	<u>\$ 514,286</u>	<u>\$ 13,900</u>	<u>\$ 183,865</u>	<u>\$ 712,051</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members
of the City Council
City of Cheboygan, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cheboygan, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Cheboygan, Michigan's basic financial statements and have issued our report thereon, dated September 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cheboygan's, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

Honorable Mayor and Members
of the City Council

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cheboygan, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

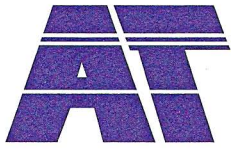
We noted certain matters that we reported to management of the City of Cheboygan, Michigan in a separate letter dated September 10, 2008.

This report is intended solely for the information and use of the Mayor, City Council, Management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 10, 2008



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members
of the City Council
City of Cheboygan, Michigan

Compliance

We have audited the compliance of the City of Cheboygan, Michigan with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Cheboygan, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Cheboygan, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Cheboygan, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, City Council, management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 10, 2008

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
Pass-Through Programs from the State of Michigan Economic Development Corporation (MEDC)			
Community Development Block Grant			
Water Main Replacement Project	14.228	MSC 206012-ICE	\$ 575,798
Community Development Block Grant – Wastewater Treatment Facility Planning	14.228	MSC 2060154-EDPA	<u>4,390</u>
Total U.S. Department of Housing and Urban Development			<u>580,188</u>
 Total Expenditures of Federal Awards			 <u><u>\$ 580,188</u></u>

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Cheboygan, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The City has not been assigned a cognizant agency. Therefore, the City is under the general oversight of the U.S. Department of Housing and Urban Development which provided the greatest amount of indirect federal funding to the City during fiscal year 2008.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified
that are not considered to be
material weaknesses? No

Noncompliance material to financial
statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified
that are not considered to be
material weaknesses? No

Type of auditors' report issued on
compliance for major programs: Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? No

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

14.228 Community Development Block Grant

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings

NONE.

Section III – Federal Award Findings and Questioned Costs

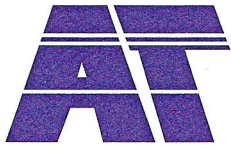
NONE.

Section II – Financial Statement Findings

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.



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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Mayor and Members
Of the City Council
City of Cheboygan, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cheboygan, Michigan for the year ended June 30, 2008, and have issued our report thereon dated September 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 26, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City of Cheboygan, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Cheboygan, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Cheboygan, Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Cheboygan, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Cheboygan, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on August 27, 2008.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Cheboygan, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

City Appropriations (Prior Year)

During the review of City Appropriations, it was noted the City appropriated monies to a non-profit organization without a written contract outlining the uses of the monies. It is recommended the City have a written contract with all non-profit organizations prior to disbursing City Appropriations, or that the City defines the governmental purpose of the appropriations. Also, an audited or reviewed financial statement should be obtained to assure funds are spent accordingly. Contributions to a non-profit agency can be a violation of state law if they do not provide allowed services.

Personal Property Taxes (Prior Year)

Currently, the City is not recording the amount of outstanding delinquent personal property taxes that are due to the City in the general ledger. It is recommended the City record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The City should maintain subsidiary ledgers, which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Fraud Policy (Prior Year)

With the implementation of Statement on Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The City does not have a “fraud policy” which would address fraud or suspected fraud and related City actions. We recommend the City adopt a fraud policy in compliance with SAS No. 99.

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, which requires the City implement the Statement for the year ended June 30, 2010. GASB Statement 45 impacts the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to fund these benefits. The City will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The City Council as well as Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

This information is intended solely for the use of the Mayor, City Council and management of the City of Cheboygan and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 10, 2008